



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

For Immediate Release

February 16, 2009

Contact: Bernardo Granwehr, Auditor's Office, 515-242-5949

State Auditor Vaudt Reviews Governor's Fiscal Year 2010 Budget

Proposal addresses budget challenges for Fiscal Year 2010 by utilizing poor budgeting practices

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers’ Watchdog” and his duty to report directly to the people of Iowa on the condition of the State’s finances, State Auditor David A. Vaudt has completed his review of the Governor’s proposed Fiscal Year 2010 budget.

The Governor’s proposal attempts to address the difficult fiscal challenges which Auditor Vaudt warned of a year ago. While the Governor’s Fiscal Year 2010 budget proposal spends somewhat less than the Fiscal Year 2009 budget, it continues poor budgeting practices, the most egregious of which is a lack of transparency. Some of the reasons Auditor Vaudt cited for this include:

Communications to the Media do not Match Reality

“With all the talk about the significant cuts in spending – 1.5% across-the-board in Fiscal Year 2009 and 6.5% for most State departments in Fiscal Year 2010 – it’s disappointing to see such miniscule reductions in total spending for General Fund services,” Auditor Vaudt said. Vaudt explained “true total expenditures” are the true costs of providing general fund services – no matter the source of the funds to pay those costs. Under the Governor’s proposal, true total expenditures will decrease only \$36 million (0.5%) in this fiscal year, and they will only decrease \$43 million (0.7%) in Fiscal Year 2010. “This is because deep spending cuts to most programs were almost completely offset by spending increases in a few protected programs,” said Auditor Vaudt. “That’s not a spending cut, that’s a spending re-distribution!”

Auditor Vaudt commented that while preserving and re-distributing existing spending is a valid policy decision, “not being forthright about what you’re doing does a disservice to the taxpayers. How can Iowans participate in the budget process when they aren’t told what’s really proposed for their tax dollars?”

Impacts of the Recession and 2008 Disasters

The Governor described Iowa’s budget problem for Fiscal Year 2010 as an “economic challenge that is historic in its scope.” The Governor went on to say, “This world-wide economic recession is affecting every state in the nation.” Combined with natural disasters suffered by this state in 2008, it is easy to conclude Iowa’s fiscal challenges relate solely to the recession and disasters.

In fact, the combined impact of the recession and disasters on the Fiscal Year 2010 General Fund is \$110 million. While this is a big number, equal to almost 2% of the General Fund budget, the number only contributes, at most, 20% to the \$500 million to \$700 million fiscal challenge the state faces. The majority of the challenge comes from years of poor fiscal practices. “I believe by addressing our fiscal problems we have an opportunity to emerge from this crisis a stronger state.” said Auditor Vaudt. “However, we can only address these problems if we understand what those problems are in the first place. One of the biggest challenges we have is a history of poor fiscal management, and we have to face this fact as we move forward.”

Short-term Focus Continues

Because the Governor proposes only \$43 million of true spending reductions, his budget proposal relies on a number of the poor budgeting practices used in previous years to bridge budget gaps. These budget practices include:

- Transfers from other funds – \$107 million
- Expenditure shifts – \$130 million
- Underfunded costs – \$89 million

These practices effectively defer almost two-thirds of Iowa’s Fiscal Year 2010 fiscal problem to Fiscal Year 2011. “These band-aid approaches are short-term fixes to a much deeper problem.” Auditor Vaudt said. “Year after year our elected officials choose the easy road, rather than the best road for Iowa’s financial future. It’s time our elected officials address the true structural problem that exists in Iowa – ongoing spending far exceeds the ongoing revenues available to pay for that spending.”

Proposed Budget Raises Several Other Concerns

The Governor’s budget proposal raises several other issues that Auditor Vaudt urges the Legislature consider as they develop their budget proposal. These issues include:

- Using Federal stimulus monies to reduce, not increase, Iowa’s spending gap
- Solving the state’s fiscal challenges without transferring the problem to local governments
- Considering the impacts of Fiscal Year 2010 decisions on the Fiscal Year 2011 budget and beyond

Auditor Vaudt concluded, “Challenging times create opportunities. Let us not pass up this opportunity to make Iowa government a better value for Iowa’s taxpayers.”

####



Auditor of State David A. Vaudt

Comments on Governor Culver's & Lt. Governor Judge's Fiscal Year 2010 Proposed Budget

**February 16, 2009
Press Briefing**

State of Iowa FY10 General Fund Budget

Remarks today will focus on these areas:

- All the talk about the recession and 2008 disasters - what are the real impacts?
- The "story" vs. "reality"
 - FY09
 - FY10
- Looking to FY11 - what does the picture look like?
- Other concerns
- The bonding proposal

State of Iowa FY09 REC Revenue Estimates (\$ in Millions)

What happened to Iowa's General Fund FY09 revenues as impacted by the recession and 2008 disasters?

REC Estimates		
FY09		
<u>12/07</u>	<u>4/08</u>	<u>12/08</u>
<u>\$6,140</u>	<u>\$6,189</u>	<u>\$6,052</u>
↑	↑	↑
↓	↓	
<u>\$49</u>	<u>(\$137)</u>	
↑	↑	(2.2%)
<u>(\$88)</u>		
<u>(1.4%)</u>		

FY09 - of the \$137 million revenue decline, more than 1/3 (\$49 million) was "self-inflicted" by notwithstanding the law and utilizing the April 2008 estimate.

REC= Revenue Estimating Conference

State of Iowa FY10 REC Revenue Estimates (\$ in Millions)

What happened to Iowa's General Fund FY10 revenues as impacted by the recession and 2008 disasters?

REC Estimates					
FY09				FY10	
<u>12/07</u>	<u>4/08</u>	<u>12/08</u>		<u>12/08</u>	
<u>\$6,140</u>	<u>\$6,189</u>	<u>\$6,052</u>		<u>\$6,026</u>	
↑	↑	↑	↑	↑	
↓	↓		↓		
<u>\$49</u>	<u>(\$137)</u>		<u>(\$26)</u>		<u>Total</u>
↑	↑	(2.2%)	(0.4%)		<u>(\$163)</u>
	<u>(\$88)</u>				
	<u>(1.4%)</u>				

FY10 - the decline from the revised FY09 estimate is only \$26 million, less than $\frac{1}{2}$ of 1%.

REC= Revenue Estimating Conference

State of Iowa
FY09 & FY10 Cost Impacts
(\$ in Millions)

What are the General Fund recession and disaster related costs estimated by the Governor?

	<u>FY09</u>	<u>FY10</u>
Medicaid	\$47	\$45
Flood recovery	<u>21</u>	<u>39</u>
	<u>\$68</u>	<u>\$84</u>

In addition, \$56 million has been appropriated from the Economic Emergency Fund for the 2008 disasters, which reduces General Fund spending.

State of Iowa
FY09 & FY10 Total Revenue & Cost Impacts
(\$ in Millions)

What are the combined General Fund recession and disaster related impacts to revenue and spending?

	<u>FY09</u>	<u>FY10</u>	<u>Total</u>
Revenue reductions	\$137	\$ 26	\$163
Spending increases	<u>68</u>	<u>84</u>	<u>152</u>
	<u>\$205</u>	<u>\$110</u>	<u>\$315</u>

Let me be clear—the recession and 2008 disasters are not the primary cause of Iowa's projected FY10 shortfall. It doesn't take a \$500 to \$700 million solution to solve a \$110 million problem.

State of Iowa FY09 Spending Cuts (\$ in Millions)

“The Story”—This is what taxpayers were told.

"I will sign an Executive Order to implement an across-the-board cut of 1.5% to the general fund. . . These actions are in addition to \$77 million in reduced spending that I announced on December 9. Together, these cuts represent nearly \$180 million. This will have an impact on programs that the State provides."

(Governor Culver, December 18, 2008, email to state employees.)

“The Reality”—This is what the Governor proposes.

1.5% across-the-board cut	\$ (89)
Selected deappropriations	<u>(31)</u>
	<u><u>\$(120)</u></u>

The Governor's proposed solutions reduce spending \$120 million—not the \$180 million originally communicated. At the same time, the Governor proposes \$84 million of additional spending through supplemental appropriations and adjustments to standings appropriations.

State of Iowa FY09 "Spending Cuts" (\$ in Millions)

"The Reality"—This is what the Governor proposes.

Uses Iowa's "charge cards":

Rebuild Iowa Infrastructure Fund	\$ 55	
Underground Storage Tank Fund	6	
Innovation Funds	<u>5</u>	<u>\$ 66</u>

The Governor's proposed solution "scoops" an additional \$66 million from other funds.

State of Iowa FY09 "Spending Cuts" (\$ in Millions)

"The Reality"—This is what the Governor proposes.

Exceeds 99% expenditure limitation (A) \$ 39

The Governor's proposed solution leaves the General Fund with a razor-thin \$23 million safety net—just 0.35% of projected revenues. What happens if the REC further reduces FY09 projected revenues?

(A) 99% expenditure limitation does not apply to supplemental appropriations.

State of Iowa FY10 Spending Cuts (\$ in Millions)

"The Story"—This is what taxpayers were told.

"Culver proposed a 6.5 percent budget cut for most of the state's departments, which he says will generate \$400 million in savings. In fact, Culver said, 207 of the 253 line items in his budget are getting cut by 6.5 percent.

Additionally, the Governor said he plans to transfer \$200 million from the state's reserve, or rainy day fund, into the general fund for the 2010 budget, claiming it has figuratively rained on the state's budget.

'This is from our rainy day fund, and it has rained,' he said.'

(Business Record Daily, January 28, 2009)

"The Reality"—This what the Governor proposes.

			<u>Decrease</u>	
	<u>FY09</u>	<u>FY10</u>	<u>Amount</u>	<u>%</u>
General Fund true total expenditures	<u>\$6,553</u>	<u>\$6,510</u>	<u>(\$43)</u>	<u>(0.7%)</u>

General Fund true total expenditures decrease only \$43 million from the revised FY09 spending estimate—that's less than 1%. This is a far cry from the \$400 million in savings the Governor claims.

State of Iowa FY10 "Spending Cuts" (\$ in Millions)

"The Reality"—This is what the Governor proposes.

Underfunds estimated costs:

Medicaid	\$60	
State Appeal Board	8	
FY09 salary increases (A)	<u>21</u>	<u>\$ 89</u>

The Governor's proposed solution underfunds estimated program costs (funds spending at less than projected costs).

(A) Impact to FY10 from salary increases that occur during FY09 (salary annualization).

State of Iowa
FY10 "Spending Cuts"
(\$ in Millions)

"The Reality"—This is what the Governor proposes.

Unspecified cost savings

\$ 20

Total appropriations are reduced through unspecified cost savings from "reorganization, efficiency, etc."

If the \$109 million underfunded costs and unspecified cost savings were appropriated, total appropriations would exceed the 99% expenditure limitation by \$108 million (1.7%).

State of Iowa

FY10 - Covering the Projected Shortfall

(\$ in Millions)

Acceptable budgeting practices:

Revenue enhancements:

Tax credit caps	\$ 28	
Tax credit eliminated	<u>3</u>	\$ 31

Spending reductions

<u>One-time transfers</u> - Cash Reserve Fund		43
		110
		<u>\$ 184</u>
		<u>36.1%</u>

Poor budgeting practices:

One-time transfers:

Cash Reserve Fund	\$ 90	
Other funds	<u>17</u>	\$ 107

Expenditure shifts (A):

Rebuild Iowa Infrastructure Fund	\$ 94	
Environment First Fund	9	
Senior Living Trust Fund	<u>27</u>	130

Underfunded costs

	89
	<u>\$ 326</u>
	<u>\$ 510</u>
	<u>63.9%</u>

The Governor's proposed solutions to address Iowa's FY10 spending gap simply defer the majority of the problems to FY11.

(A) Excludes IowaCare Account because expenditures shifted equal revenues shifted—no net impact.

State of Iowa The FY11 Outlook (\$ in Millions)

FY10 revenues (A)	\$6,137
Less FY11 impacts of enacted revenue reductions and tax credit increases	<u>(50)</u>
FY10 <u>ongoing</u> revenues	<u>\$6,087</u>
FY10 <u>ongoing</u> revenues available (B)	\$6,026
FY10 true total expenditures	<u>6,510</u>
FY10 spending gap before revenue and spending changes	<u>\$ (484)</u>
FY11 revenue growth needed just to fill the existing spending gap	<u>8.0%</u>

(A) Assumes renewal of IowaCare waiver for Medicaid

(B) Reflects 99% expenditure limitation

State of Iowa Other Concerns (\$ in Millions)

- To the extent Federal stimulus monies are received and used to increase FY10 ongoing General Fund spending, the FY11 spending gap will grow—these monies will be one-time resources.
- Property tax credit funding is \$50 million less than prior years—simply transfers problem to local governments.
- Spends maximum available under 99% expenditure limitation—how will negotiated salary increases, if any, be addressed (\$17 million impact for each 1% increase)?
- School allowable growth funding reduced from 4% to 2% (\$59 million impact)—what's the benefit of approving a year in advance?
- Temporary funding for Medicaid under a special waiver (IowaCare) expires in FY10—\$80 million of General Fund revenue at risk if not renewed.
- Rainy Day funds are tapped for \$256 million leaving a balance of only \$365 million—if economic downturn continues, as many predict, into FY11, Iowa's options are severely restricted.

State of Iowa The Bonding Proposal (\$ in Millions)

Rebuild Iowa Infrastructure Fund (RIIF):

Resources available:	<u>FY09</u>	<u>FY10</u>	<u>Total</u>
Gaming revenues	\$ 202	\$ 205	
Interest	28	23	
Tobacco MSA payments	18	18	
Riverboat license fees	8	-	
Other, net	<u>5</u>	<u>(3)</u>	
	<u>\$ 261</u>	<u>\$ 243</u>	<u>\$ 504</u>
<u>Non-RIIF uses:</u>			
Transfers to General Fund	\$ (55)	\$ -	
Expenditure shifts	<u>(101)</u>	<u>(94)</u>	
	<u>\$ (156)</u>	<u>\$ (94)</u>	<u>\$(250)</u>

Using the RIIF fund for infrastructure (vertical or horizontal) would provide in just a 3-year period more than the \$700 million of bonding proposed by the Governor that requires a 20-year payback.

To the extent Federal stimulus monies are received for infrastructure (as currently proposed), how much infrastructure spending is Iowa capable of undertaking in the next 12 to 18 months?

State of Iowa
FY09 & FY10 General Fund Budget
(\$ in Millions)

	FY09		FY10
	Original Budget (A)	Revised Budget (B)	Governor's Proposal
Revenues:			
REC estimate	\$6,189	\$6,052	\$6,026
Tax credit caps/elimination	-	-	31
Other revenue adjustments	14	-	-
IowaCare Account	<u>78</u>	<u>75</u>	<u>80</u>
Total	<u>\$6,281</u>	<u>\$6,127</u>	<u>\$6,137</u>
True total expenditures:			
General Fund budget	\$6,133	\$6,095	\$6,210
Shifted expenditures (C)	444	445	211
Underfunded costs	12	-	89
Other	<u>-</u>	<u>13</u>	<u>-</u>
Total	<u>\$6,589</u>	<u>\$6,553</u>	<u>\$6,510</u>
Revenues available (D)	\$6,218	\$6,066	\$6,076
True total expenditures	<u>6,589</u>	<u>6,553</u>	<u>6,510</u>
Spending gap	<u>\$ (371)</u>	<u>\$ (487)</u>	<u>\$ (434)</u>

- (A) Before revenue reductions and supplemental appropriations
- (B) As proposed by the Governor based upon REC revenue reduction and supplemental appropriations.
- (C) Non-General Fund resources (includes IowaCare Account)
- (D) Reflects 99% expenditure limitation

REC = Revenue Estimate Conference